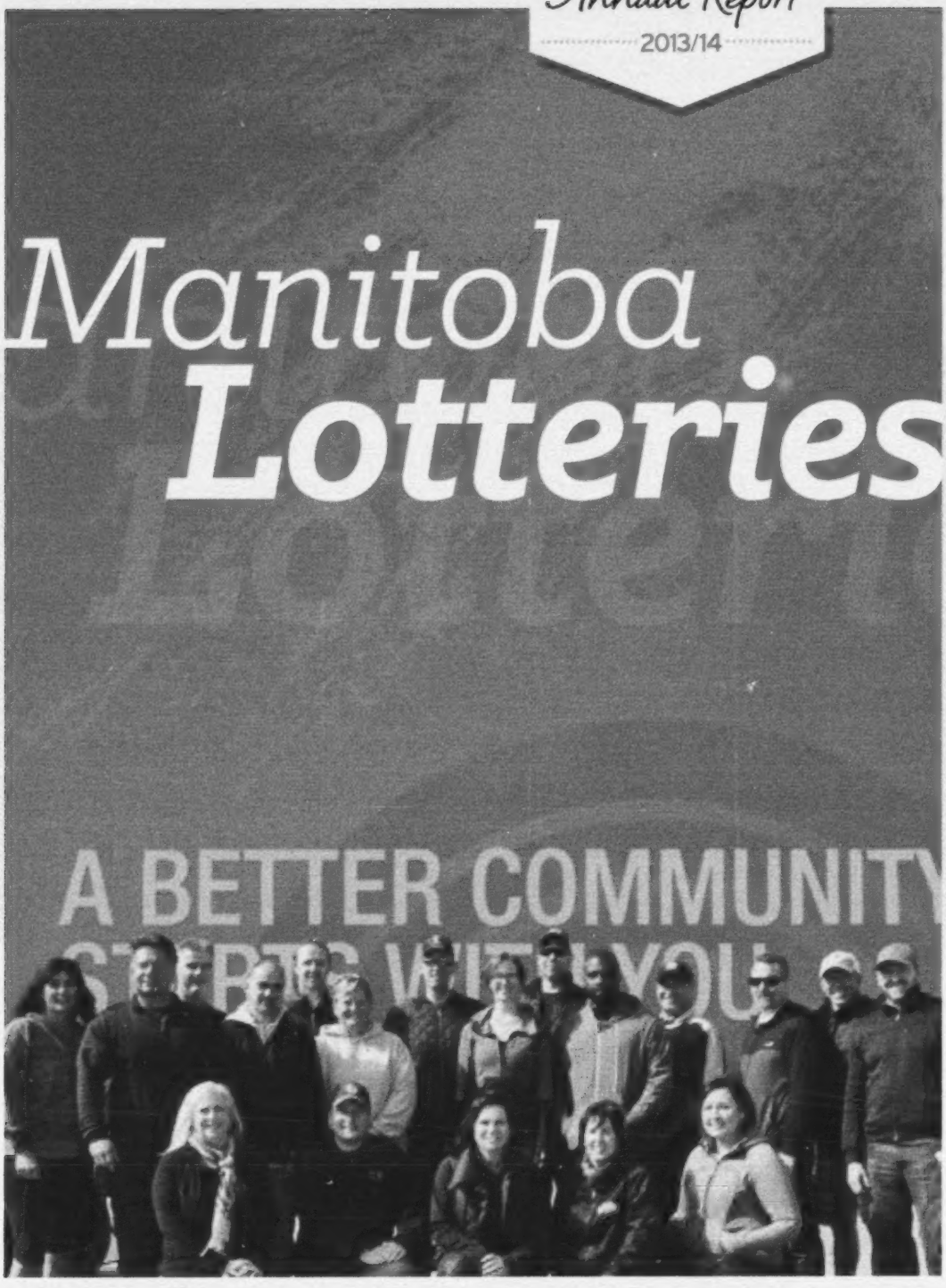
*Annual Report*

2013/14

# *Manitoba* **Lotteries**



**Honourable Ron Lemieux**
MINISTER RESPONSIBLE FOR LOTTERIES
Room 203, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

September 22, 2014

Dear Honourable Minister:

I have the honour to present you with the annual report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2014.

Respectfully submitted,

(originally signed by)

**Tannis Mindell**
CHAIR, BOARD OF DIRECTORS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# Amalgamation of Manitoba Lotteries with The Manitoba Liquor Control Commission

On April 1, 2014 Manitoba Lotteries Corporation merged with the Manitoba Liquor Control Commission (MLCC) with *The Manitoba Liquor and Lotteries Corporation Act* coming into effect. The regulatory activities of the MLCC transferred to a new regulatory agency, the Liquor and Gaming Authority of Manitoba, which also absorbed the Manitoba Gaming Control Commission.

The 2013/14 fiscal year occurred prior to the proclamation of the new legislation, and is therefore being reported separately for Manitoba Lotteries and the MLCC. Please refer to the annual report of the MLCC for its 2013/14 fiscal year.

Manitoba Lotteries operates Club Regent Casino and McPhillips Station Casino in Winnipeg, as well as Video Lotto and PlayNow.com in Manitoba. It is the exclusive supplier of breakopen tickets and bingo paper in the province and also distributes and sells tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation.

Throughout 2013/14 Manitoba Lotteries and the MLCC conducted operations collaboratively, guided by the vision, mission and values developed for the new merging corporation. This fiscal year saw the additional development of business pillars and goals to provide strategic direction. This annual report is structured around the four strategic pillars of the Manitoba Liquor and Lotteries Corporation as they pertain to gaming operations.

## Vision

To exceed customer expectations while supporting our communities.

## Mission

Innovative and responsible delivery of quality products and entertainment, generating revenue for Manitoba.

## Values

### Importance of People

Foster a positive and diverse workplace and work together towards our common goals.

### Responsibility

Demonstrate responsible business, social, and environmental practices.

### Integrity and Fairness

Be respectful, ethical and fully accountable for our actions and decisions.

### Service Excellence

Provide superior service to our customers, partners and co-workers.

### Innovation

Learn from our experiences, embrace change and encourage innovation.

## Strategic Pillars

### Customers

Maintaining satisfied customers and increasing our customer base.

### Effectiveness

Delivering profitable growth and quality products while embracing innovation.

### Responsibility

Committed to business integrity, community investment, environmental sustainability practices, and encouraging the responsible use of our products and services.

### Employees

Building a new shared culture with an engaged and diverse workforce that is knowledgeable, in a respectful and safe workplace.

# Where the Money Goes

FOR THE YEAR ENDED MARCH 31, 2014 (IN MILLIONS OF CANADIAN DOLLARS)

| | |
|---|---|
| 278.1 | **Allocation to the Province of Manitoba** (Education, Health & Other Government Programs) |
| 100.8 | **Commissions & Contributions Paid to Siteholders** |
| 99.7 | **Salaries & Benefits** |
| 103.2 | **Other Cost of Sales & Expenses** |
| 6.4 | **Payments to Other Levels of Government** |
| 6.1 | **Supporting Our Communities** |
| 5.3 | **Responsible Gaming Initiatives** |
| 599.6 | **Total Revenue & Other Income** (Includes revenue, share of profit of Western Canada Lottery Corporation and interest income) |

Messages

# Message From the Chair

It is a pleasure to report on the results of 2013/14 for Manitoba Lotteries, a corporation that makes significant contributions to our community through revenue generation, job creation, economic spinoffs, community partnerships and employee volunteerism.

I am pleased to report that as of April 1, 2014, Bill 43, *The Manitoba Liquor and Lotteries Corporation Act* and *Liquor and Gaming Control Act*, was enacted through legislation, and came into effect for the 2014/15 fiscal year.

This was an important and significant milestone of the merger journey, and would not have been possible without the combined efforts of members of the Executive Management Committee and many other individuals who contributed towards its development. I am also pleased to report that by the end of fiscal year 2013/14 Manitoba Liquor and Lotteries realized an accumulated savings of $6.1 million related to the merger process.

So, for the efforts invested in both of these considerable accomplishments, I wish to extend my sincere thanks and congratulations on behalf of the Board.

There is no doubt that the new legislation provides an appropriate and forward-looking foundation on which to build a successful future for the socially responsible sale of liquor and gaming products in Manitoba. The Board worked with the Province of Manitoba so that the new Act included a requirement that two percent of budgeted net income go towards initiatives that promote responsible gaming and responsible liquor consumption, including research and treatment programs.

The two percent commitment is a bright legacy of Manitoba Lotteries, which had voluntarily supported responsible gaming initiatives in this fashion for several years. The new Act extends this investment to liquor social responsibility and enshrines the commitment into the fabric of the new corporation. We look forward to continuing our work under that mandate.

On behalf of the Board, I would like express my sincere thanks to President & CEO Winston Hodgins, the Executive Management Committee, and all employees for their contributions in making 2013/14 a success. I look forward to the year ahead as we begin a new era of providing excellence and value to the people of Manitoba.

(originally signed by)

**Tannis Mindell**
CHAIR, BOARD OF DIRECTORS

# Message From the President & CEO

I am pleased to report on the final fiscal year of operations for Manitoba Lotteries. The merger of Manitoba Lotteries with the Manitoba Liquor Control Commission (MLCC) was announced in April 2012. Legislation officially ushered in the new Manitoba Liquor and Lotteries Corporation on April 1, 2014.

In 2013/14 Manitoba Lotteries delivered $278.1 million to the Province of Manitoba in support of priority government programs such as health care, education, and community and social services. We achieved this while further integrating the operations of Manitoba Lotteries and the MLCC.

It has been a pleasure to work alongside such committed employees throughout the entire merger process. Over the past two years, employees have worked tirelessly to ensure that the integration proceeded with minimal business interruption.

Early in the fiscal year, Manitoba Lotteries and the MLCC embarked on a major effort to consolidate common departments. This endeavor saw more than 400 employees co-located from various locations. The transition set the pace for the remainder of the year as employees from both organizations quickly integrated their respective functions and workplace cultures. The final step to fully integrate all management and administrative functions will be achieved when a new corporate headquarters is identified. The first steps towards that goal have been initiated recently through a search for a suitable downtown location in Winnipeg.

Several merger-related tasks remain for Manitoba Liquor and Lotteries including the unification of electronic records management systems, and human resource matters such as harmonizing benefit plans. We are working proactively with unions and employees to ensure a smooth transition, and are committed to maintaining a healthy and productive workplace for all of our people. In fact, Manitoba Lotteries and the MLCC were jointly recognized this year as a Top Employer in Manitoba as selected by the editors of Canada's Top 100 Employers competition.

Manitoba Lotteries achieved a major milestone this year when we earned international certification for our responsible gaming strategy and programs. The World Lottery Association granted Manitoba Lotteries its Level 4 Responsible Gaming Framework certification after a rigorous evaluation of our business operations. This is the highest level of certification available from the association and is based on our performance in ten broad areas of our business.

The achievement is evidence of the value we place in our social responsibility programming. We are continually enhancing our employee training, player education, stakeholder engagement, research support and our other areas of social responsibility. The certification reinforces among all of our employees that social responsibility is central to our corporate mission.

Last year we also strengthened and diversified our products to meet the changing preferences of our customers, and the shifting landscape of the industry. Our expertise in casino management and development was instrumental in the successful launch of the Shark Club Gaming Centre, located in the heart of Winnipeg's Sports, Hospitality and Entertainment District. PlayNow.com introduced the convenience of purchasing regional and national lottery games online and prepared for a launch of peer-to-peer bingo in 2014/15 that will connect Manitobans with players in British Columbia and Quebec.

LOTTO 6/49 was re-launched with a guaranteed $1 million prize, a larger base jackpot and other improvements. In support of our recently refreshed video lottery terminal (VLT) network we consulted extensively with players, VLT site owners and our vendors to further refine the customer experience.

In closing, I would like to thank our Board, our Executive Management Committee and our employees for their ongoing enthusiasm, dedication and commitment this past year. Our accomplishments and achievements result in financial returns that directly support our province and in community partnerships that vitalize hundreds of organizations across Manitoba.

(originally signed by)

**Winston Hodgins**
PRESIDENT & CEO

# Customers

## Delivering unique experiences

PlayNow.com offers customers unique playing experiences and opportunities. In a PlayNow.com worldwide exclusive, the Casinos of Winnipeg hosted the top prize in poker, the World Series of Poker (WSOP) Main Event bracelet. This chance of a lifetime thrilled poker players and gave them a chance to see the $250,000 diamond bracelet before it was later won in Las Vegas. It got even better for two Manitobans who played satellite tournaments on PlayNow.com and earned a trip to play in the WSOP in Las Vegas.

Lottery players enjoyed the added convenience this year when PlayNow.com began offering lottery products for sale. Purchasing national and regional tickets online has its advantages including never having to worry about losing a ticket, and automatic notification of any winning tickets.

## Enhancing the Video Lottery Terminal network

In support of the new VLT network unveiled last year, we consulted with players and the operators of VLT sites throughout 2013/14. Our intention was to better determine customer insights and preferences as well as site operator needs and observations. We continue to improve our communication with site operators through a redesigned newsletter and other communications channels that allow direct feedback from our guests and stakeholders.

The VLT network is the first of its kind in Manitoba, featuring playing terminals from three different vendors in order to offer a broad range of games and playing experiences. Over this past year and continuing into the year ahead we are working with vendors to further tailor their products for our market.

## Delivering a local flavour

Finding quality, locally produced food has never been easier at our casino restaurants. We continue to work with the Manitoba Food Processors Association and Buy Manitoba to source local fresh and processed goods wherever possible. Our guests are also served only sustainably-sourced seafood. New this year, we have switched to fair trade coffee and also offer fair trade wines.

Our first flash food mob - an event where our kitchens prepare complimentary hors d'oeuvres for unsuspecting casino guests - was a smash hit this past year at McPhillips Station Casino. We are extending these fun events to both casinos throughout 2014/15 and will use the opportunity to highlight locally produced food products.

## Year of Music

As presenting sponsor of the province's Year of Music in 2014, Manitoba Liquor and Lotteries announced a new major concert series with the Winnipeg Symphony Orchestra. The series is taking place at the new Club Regent Event Centre and will bring the WSO together with other eminent performers.

The new website mbll.ca helps customers and the public to navigate the many services and products of Manitoba Liquor & Lotteries

Huey Lewis and the News at the Club Regent Event Centre, May 2014.

# Effectiveness

## There's a new club in town

The Shark Club Gaming Centre in Winnipeg's *city;place* opened to rave reviews in June 2013. Manitoba Lotteries was proud to develop the gaming portion of the venue in collaboration with True North Sports & Entertainment. The Shark Club features five Blackjack tables and one Roulette table, plus 140 slot machines and electronic Roulette stations. Manitoba Lotteries was contracted by True North Sports & Entertainment to manage and operate the gaming at the Shark Club.

The Shark Club Gaming Centre, Winnipeg

## A guaranteed hit – the new LOTTO 6/49

In September 2013 the classic national lottery game LOTTO 6/49 started making millionaires out of Canadians every week, thanks to a new guaranteed $1 million prize on each and every draw. The addition of the guaranteed prize - on top of the continuing jackpot - is based on extensive consumer feedback. This favourite lottery game also introduced a new minimum $5 million jackpot and free play prizes that can be won by matching just two numbers.

The Prairies ended 2013 with a flurry of millionaire winners, with no fewer than 11 lottery prizes of $1 million-plus over the last 11 days of the year. One Winnipeg player received a cheque for over $8 million to celebrate the last day of the year.

## Refreshing the Casinos of Winnipeg

The Casinos of Winnipeg continue to be updated featuring designs that evoke a contemporary feel. Construction of the new Club Regent Event Centre over the past year stayed on pace to have the centre ready for its premier concert in May 2014 featuring Huey Lewis and the News. Excitement grew throughout the year as additional concert announcements were made, including internationally-renowned Irish crooner Daniel O'Donnell. Meanwhile at McPhillips Station Casino, a new 900-stall parkade now offers great convenience, comfort and security to our customers.

Renovations at the Casinos of Winnipeg are optimizing energy use through lighting, heating, cooling and power systems. The improvements are reducing the greenhouse gases generated from building operations, all while creating a more comfortable environment for guests.

CASINOS OF WINNIPEG

McPHILLIPS STATION CASINO

club Regent CASINO

# Responsibility

## Delivering world-class responsible gambling

Manitoba Lotteries has a history of being a leader in supporting informed player choice and including responsible gambling considerations in its gambling products and environments. In 2013/14 we were recognized internationally for this ongoing commitment with the highest possible level of international certification for responsible gaming practices. Manitoba Lotteries earned the World Lottery Association's Level 4 Responsible Gaming Framework certificate based upon a comprehensive audit across ten operational areas.

WLA

**WORLD LOTTERY ASSOCIATION CERTIFIED**
**WLA RESPONSIBLE GAMING FRAMEWORK**
**LEVEL 4 / VALID UNTIL 2017**

The certification is much more than a grade on past performance. At this level, it means that Manitoba Lotteries is committed to going even further with continuous and measurable improvements in all of our practices.

## Researching responsible gambling

Now in its third year, the Manitoba Gambling Research Program continues to build capacity in the province for gambling research. To date the program's funding commitments have totaled over $1.2 million, supporting the development of quality research and improving our ability to prevent and treat problem gambling in Manitoba. Each project supports the work of local researchers and students, and provides them a vehicle to collaborate with other world-renowned gambling research experts. Learn more about research currently underway at ManitobaGamblingResearch.com

### Level 4 Certification means we:

| | |
|---|---|
| 1. Research* | Support, conduct, integrate and disseminate responsible-gaming-related research. |
| 2. Employee program | Ensure and support the efficient and effective application of responsible gaming principles by all relevant employees. |
| 3. Retailer program | Ensure and support the efficient and effective application of responsible gaming principles by retailers and their front-line staff. |
| 4. Game design | Apply evidence-based responsible gaming considerations to the design selection and introduction of new lottery and gaming products. |
| 5. Remote gaming channels | Ensure that interactive, remote gaming platforms have safeguards in place that protect the player. |
| 6. Advertising/ marketing communications* | Ensure continuous improvement of marketing/communications practices and application of regulatory codes. |
| 7. Player education* | Support, integrate and disseminate information related to good practices in responsible play ("informed player choice") and treatment referral. |
| 8. Treatment referral* | Offer customers with potential or actual addiction problems support, guidance and referral to specialized services if needed. |
| 9. Stakeholder engagement | Identify, understand and integrate the interests of decision-makers, decision-influencers and other members of society into key responsible gaming-related business decisions. |
| 10. Reporting and measurement | Measure and report on commitments, actions and progress on responsible gaming to relevant internal and external stakeholders. |

* Areas in which Manitoba Lotteries was identified as above satisfactory (substantial or best practice). For more information please visit world-lotteries.org

Arranging a team member for your community event, classroom or organization is as simple as visiting mbll.ca.

# IMPACT Team

(left to right)

- **Kaitlyn Lawes**
  Olympic Gold Medalist, Women's Curling
- **Janine Hanson**
  Olympic Silver Medalist, Women's 8 Rowing
- **Jared Funk**
  Three Time Paralympic Medalist, Men's Wheelchair Rugby
- **Obby Khan**
  Winnipeg Blue Bomber, Retired
- **Reid Carruthers**
  Gold Medalist, World Curling Championship

## Inspiring the hero in all of us

Countless Manitobans serve their communities through charities and organizations year round, and we are proud to stand next to them with our support. Our sponsorships, partnerships and other programs injected $6.1 million this year into everything from festivals to arts, culture, sports and other organizations across the province. The next time you participate in one of the many major community events in Manitoba, there is a good chance you will see us participating in some way.

One of the ways in which we engage Manitobans and raise awareness of our commitment and support to our communities is through our IMPACT Team. These athlete ambassadors have individually succeeded in their respective sports at the highest national and international levels. As public speakers they share their own stories, including personal challenges and insights. This team is also active around the province visiting community events and joining celebrations. Arranging for a team member to attend your community event, classroom or organization is as simple as visiting mbll.ca.

GameSense

IT'S LAKE FRIENDLY

Imagine Caring Company

CAZA CAZAC

Our casinos are partners of it's Lake Friendly, while Club Regent Casino's aquarium is certified by CAZA.

Manitoba Lotteries Habitat for Humanity Legacy Build

## Building a legacy

Established in 2008, the Manitoba Lotteries Legacy Build program was created to assist Habitat for Humanity Manitoba in building more homes for families. This year we built our fiftieth house and it was the first to be constructed using mortgage payments from the previous ones in the program. The program is now living up to its name, creating a legacy that will see even more affordable homes built in our communities each year.

As the presenting sponsor of Manitoba's Year of Music, we will be celebrating at many events throughout 2014

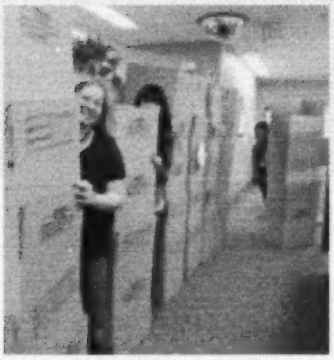
## Voluntary Self-Exclusion

We have made some important enhancements to our Voluntary Self-Exclusion (VSE) program. Voluntary self-exclusion means that for a self-selected time period a person makes the commitment to not enter the Casinos of Winnipeg, the Shark Club Gaming Centre, and/or have an account on PlayNow.com. Before a VSE can be concluded, a person must fulfill an educational requirement.

New for this year, the program now offers four exclusion length options from six months, to reflect that different people have different needs. As well, the re-entry educational course, traditionally delivered in person in Winnipeg by the Addictions Foundation of Manitoba, has now been adapted for online delivery to increase access for individuals.

# Employees

## Merging employees in the real and virtual worlds



In May 2013, as a major step towards merging Manitoba Lotteries and the MLCC, hundreds of employees participated in a colocation that brought together overlapping departments. This major logistical effort was carefully planned so as to avoid disruption to business functions and customer service. The relocation marked an important transition in combining day-to-day operations between the two corporations, while greatly reducing the need for individual employees to split time at multiple work locations.

During a merger employees have lots of questions, and a variety of resources were developed to provide answers. The most significant to be launched this past fiscal year was a new intranet that linked resources from both business lines. The online network provides timely information and valuable resources to employees who are navigating the requirements and opportunities that the merger presented. The intranet replaced an interim newsletter, *Merger Matters*, which served employees immediately following the merger announcement.

## Employee Giving

Manitoba Lotteries and MLCC employees have a deep history of volunteering and contributing to their communities. One of the advantages of merging is that employees discover even more opportunities to participate and support their neighbours. This year they supported many major campaigns from organizations including the United Way, Canadian Blood Services, Children's Rehabilitation Foundation, Christmas Cheer Board, Operation Red Nose, the All Charities Campaign, and others.

2014 MANITOBA'S TOP EMPLOYERS

## Equity Participation Rates

| | | | |
|---|---|---|---|
| **49.7%** | Women | **11.1%** | Aboriginal |
| **31.9%** | Visible Minority | **2.0%** | Disabled |

# Board of Directors

**Tannis Mindell**
CHAIR

**Leslie Turnbull**
VICE-CHAIR

**Fran Frederickson**

**Jean Paul Gobeil**

**Robert Mayer**

**Marion Moist**

**Arnold Ouskan**

**Kevin Rebeck**

**Gerald Rosenby**

**David Schioler**

# Executive Management

**Winston Hodgins**

PRESIDENT & CEO

**Tracy Graham**

CHIEF FINANCIAL OFFICER

**Peter Hak**

CHIEF CORPORATE SERVICES OFFICER

**Peter Kenyon**

CHIEF OPERATING OFFICER

**Larry Wandowich**

CHIEF COMMUNITY RELATIONS & MARKETING OFFICER

**Robert Holmberg**

VICE PRESIDENT, LIQUOR OPERATIONS

**Susan Olynik**

VICE PRESIDENT, CORPORATE COMMUNICATIONS & SOCIAL RESPONSIBILITY

**Wayne Perfumo**

VICE PRESIDENT, ENTERTAINMENT & HOSPITALITY

**Marilyn Robinson**

VICE PRESIDENT, INTEGRATION

**Dan Sanscartier**

VICE PRESIDENT, GAMING OPERATIONS

**Signy Shaw**

SENIOR EXECUTIVE DIRECTOR, INTERNAL AUDIT & CORPORATE COMPLIANCE

MD&A

# Management Discussion and Analysis

OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
AS AT MARCH 31, 2014

The Management Discussion and Analysis reviews the consolidated financial results of the operation of Manitoba Lotteries Corporation (Manitoba Lotteries) for the fiscal year ended March 31, 2014. This report should be read in conjunction with Manitoba Lotteries' audited consolidated financial statements and accompanying notes.

Management is responsible for the reliability and timeliness of the information disclosed in the Management Discussion and Analysis and does so by implementing and monitoring the appropriate existence and effectiveness of systems, controls and procedures used by Manitoba Lotteries.

## Overview and Results of Operations

Manitoba Lotteries strives to provide its customers and guests with world-class products and services that meet or exceed expectations in a socially responsible manner.

The past fiscal year has been a period of significant progress for Manitoba Lotteries with the completion of the upgrade to the province-wide VLT network which included the replacement of aged VLTs and the centralized gaming management system that supports those VLTs, the first full year of operations of PlayNow.com which offers live poker, video poker, slots, lottery products and live sports betting to Manitobans through the only provincially regulated online gaming site, continued construction activities at both casino properties to enhance the customer's total entertainment experience and the completion of many activities to support the future of the merged entity, Manitoba Liquor and Lotteries Corporation.

In the 2013/14 year, Manitoba Lotteries' allocation to the Province of Manitoba was $278.1 million, a decrease of $19.4 million or 6.5% as compared to the 2012/13 allocation to the Province of Manitoba of $297.5 million.

The three operating segments of Manitoba Lotteries are Video Lotto, Casinos and Lottery. In accordance with International Financial Reporting Standards (IFRS), Manitoba Lotteries accounts for the Western Canada Lottery Corporation (WCLC) using the equity method and therefore presents its share of the profit of WCLC as one line in the consolidated statement of net income, comprehensive income and equity of the audited consolidated financial statements.

In addition, for reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services, including human resources, finance, marketing, facilities, technology, audit, security, corporate communications and social responsibility, have been allocated to each of the operating segments outlined on pages 16 and 17.

Revenue of $537.5 million decreased $2.9 million or 0.5% from the previous year's level of $540.4 million. Revenue trends across the country indicate many jurisdictions which have VLTs have experienced flat or decreased revenue over the previous year and all jurisdictions are experiencing declining casino electronic gaming revenues. As part of its long-range strategic goal of increasing overall customer satisfaction, Manitoba Lotteries continually reviews existing product offerings in order to enhance the customer's overall experience. The upgrade to the province-wide VLT network which was completed in the first quarter of 2013/14, the introduction of the PlayNow.com online gaming site and the ongoing casino renewal activities are the direct result of these continual efforts to provide innovative products and entertainment to generate revenue for the province of Manitoba.

| 2014 (in thousands) | Video Lotto | Casinos | Lottery | Total |
|---|---|---|---|---|
| Revenue | $ 309,160 | $ 225,677 | $ 2,662 | $ 537,499 |
| Direct expenses | 30,527 | 13,375 | 1,229 | 45,131 |
| | 278,633 | 212,302 | 1,433 | 492,368 |
| Operating expenses | 31,351 | 97,859 | 11,887 | 141,097 |
| Depreciation and amortization | 18,839 | 22,492 | - | 41,331 |
| Goods and Services Tax | 2,869 | 1,701 | 196 | 4,766 |
| | 53,059 | 122,052 | 12,083 | 187,194 |
| Operating Income | 225,574 | 90,250 | (10,650) | 305,174 |
| Share of profit of Western Canada Lottery Corporation | - | - | 61,674 | 61,674 |
| Interest expense on long-term debt | (2,973) | (5,539) | (150) | (8,662) |
| Interest income | 374 | 68 | 11 | 453 |
| Income Before Allocations and Payments | 222,975 | 84,779 | 50,885 | 358,639 |
| Allocations and payments | 72,811 | 6,929 | 841 | 80,581 |
| **Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba** | **$ 150,164** | **$ 77,850** | **$ 50,044** | **$ 278,058** |

Revenue, net of direct expenses in 2013/14 was $492.4 million compared to $494.9 million in the previous year, a decrease of $2.5 million. Operating expenses of $141.1 million were $3.7 million greater than the previous year's $137.4 million, and include payroll and other costs directly related to the generation of gaming and lottery revenues. The increase in operating expenses is primarily a result of increases in salaries and benefits under the collective agreements. The majority of other operating expenses were carefully managed to maintain levels consistent with the prior year.

Depreciation and amortization of $41.3 million in the 2013/14 year increased $9.6 million from the $31.7 million recorded in 2012/13. The increase was primarily a result of capital investment into property and equipment during the fiscal year to enhance the overall customer experience including the introduction of the PlayNow.com online gaming site, the launch of the upgraded VLT network and continued renewal activities at the two casino properties.

## Video Lotto

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at MLCC licensed beverage rooms, Veterans organizations, First Nations communities and Assiniboia Downs. The operation of VLTs contributed 54.0% of Manitoba Lotteries' net income and provided annual commissions and contributions of $100.8 million to all VLT siteholders who operate equipment on their premises.

Video Lotto operations generated revenue of $309.2 million in the 2013/14 year, an increase of $0.9 million or 0.3% from the revenue of $308.3 million in the previous year. Net income of $150.2 million decreased $15.9 million or 9.6% from the net income of $166.1 million in the previous year. Operating expenses and depreciation and amortization for the business line increased to support the upgrade to the VLT network.

| 2013 (in thousands) | Video Lotto | Casinos | Lottery | Total |
|---|---|---|---|---|
| Revenue | $ 308,288 | $ 229,302 | $ 2,762 | $ 540,352 |
| Direct expenses | 31,667 | 12,576 | 1,193 | 45,436 |
| | 276,621 | 216,726 | 1,569 | 494,916 |
| Operating expenses | 28,403 | 98,198 | 10,837 | 137,438 |
| Depreciation and amortization | 4,027 | 27,638 | - | 31,665 |
| Goods and Services Tax | 2,009 | 1,569 | 122 | 3,700 |
| | 34,439 | 127,405 | 10,959 | 172,803 |
| Operating Income | 242,182 | 89,321 | (9,390) | 322,113 |
| Share of profit of Western Canada Lottery Corporation | - | - | 63,723 | 63,723 |
| Interest expense on long-term debt | (1,321) | (5,073) | (159) | (6,553) |
| Interest income | 195 | 61 | 18 | 274 |
| Income Before Allocations and Payments | 241,056 | 84,309 | 54,192 | 379,557 |
| Allocations and payments | 74,955 | 6,312 | 748 | 82,015 |
| **Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba** | **$ 166,101** | **$ 77,997** | **$ 53,444** | **$ 297,542** |

## Commercial

Under a new tiered structure introduced in the 2013/14 fiscal year, Commercial siteholders retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to Manitoba Lotteries for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province.

## Assiniboia Downs

Effective until February 2014, Manitoba Lotteries operated under a funding agreement with the Manitoba Jockey Club (MJC) which provided up to $6.5 million in revenue, plus an additional 20% commission if VLT revenues reached higher than expected thresholds. Under this funding arrangement, 10% of the net win represented the actual service component provided to Manitoba Lotteries for hosting the terminals and the balance was considered a contribution to support the horse racing industry in Manitoba. The funding agreement with the Manitoba Jockey Club is now a Commercial siteholder arrangement.

## First Nations

First Nations siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to Manitoba Lotteries for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities with the First Nations communities.

PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED (IN MILLIONS)

| VIDEO LOTTO | | |
|---|---|---|
| Dollars Deposited | $ 1,411 | |
| Dollars Played | | $ 4,355 |
| Dollars Won | | $ 4,048 |
| Dollars Cashed Out | $ 1,104 | |
| Revenue | $ 307 | $ 307 |
| Dollars Won (Prizes) | $ 4,048 | 93.0% |
| Dollars Played | $ 4,355 | |

## Casinos

Manitoba Lotteries owns and operates two casinos in the City of Winnipeg – Club Regent Casino and McPhillips Station Casino. In addition, the 2013/14 fiscal year marks the first year of online gaming offerings through the PlayNow.com gaming site. PlayNow.com is the province's only regulated site for online gaming and offers customers a safe and reputable site featuring extensive responsible gaming measures. The online platform was developed by British Columbia Lottery Corporation (BCLC) and Manitoba Lotteries has partnered with BCLC to provide Manitoba players casino games, lottery products, bingo, poker and live sports betting opportunities.

Casino operations, which include the results of eGaming, generated revenues of $225.7 million in the 2013/14 year, a decrease of $3.6 million or 1.6% from the revenues of $229.3 million of the previous year.

Casino net income of $77.9 million decreased from the previous year's net income of $78.0 million by $0.1 million or 0.1%. Efforts continued to focus on presenting the casinos as a total entertainment destination and Manitoba Lotteries regularly improves the gaming offerings by updating certain games and by introducing new games.

Manitoba Lotteries continues to focus attention on other hospitality and entertainment amenities in the form of enhanced food and beverage offerings and the Club Regent Event Centre. The Club Card program which allows patrons to accumulate points redeemable for non-gaming goods and services either on-site at the casinos or through the online Club Card Rewards catalogue continues to be favourably received by customers, adding to the overall customer experience.

Efforts related to renewal of the casino properties continued in the 2013/14 year with construction of the Event Centre at Club Regent Casino and the construction of a new parkade at McPhillips Station Casino.

PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED (IN MILLIONS)

| CASINOS | | |
|---|---|---|
| Dollars Deposited | $ 1,221 | |
| Dollars Played | | $ 2,312 |
| Dollars Won | | $ 2,125 |
| Dollars Cashed Out | $ 1,034 | |
| Revenue | $ 187 | $ 187 |
| Dollars Won (Prizes) | $ 2,125 | 91.9% |
| Dollars Played | $ 2,312 | |

## Lottery

The Province of Manitoba is a member of the WCLC, a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the prairie provinces and the territories. Manitoba Lotteries distributes and sells tickets for national lotteries operated by the Interprovincial Lottery Corporation (ILC) and lottery gaming products operated by the WCLC. As the province's sole distributor of lottery products, Manitoba Lotteries is responsible for the development and maintenance of a retailer network of about 900 outlets across Manitoba and to market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. Manitoba Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In the 2013/14 year, Manitoba Lotteries' share of the profit of WCLC of $61.7 million decreased from the previous year's share of the profit of WCLC of $63.7 million by $2.0 million or 3.1%. Net income of $50.0 million decreased from the previous year's net income of $53.4 million by $3.4 million or 6.4%. Sales of lottery products in the year were higher in all categories with the exception of LOTTO MAX.

## First Nations Casinos and Shark Club Gaming Centre

In 2013/14 Manitoba Lotteries continued to provide support to the First Nations Casino operators in Manitoba. As authorized by the Gaming Agreements, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by Manitoba Lotteries and are recovered over a five (5) year term.

During the fiscal year, Manitoba Lotteries provided assistance and capital financing in the amount of $0.6 million to Aseneskak Casino for the continuation of their slot floor refurbishment program. South Beach Casino continued their gaming floor refresh project and initiated an upgrade to their casino management system in the 2013/14 year for which Manitoba Lotteries provided assistance and capital financing in the amount of $1.8 million.

The third First Nations casino in Manitoba, Sand Hills Casino, is scheduled to open in the summer of 2014. Manitoba Lotteries will provide assistance and capital financing for the acquisition of the gaming equipment and supplies required for the start-up of the new casino.

In 2013/14, the Government of Manitoba authorized the establishment of the Shark Club Gaming Centre over which Manitoba Lotteries maintains conduct and management authority as the agent appointed to act as such for the gaming regime of the province. As authorized by the Gaming Agreement, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by Manitoba Lotteries and recovered over a five (5) year term. During the fiscal year, Manitoba Lotteries provided assistance and capital financing in the amount of $4.0 million for the start-up of the gaming centre.

## MLC Holdings Inc.

Manitoba Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase capital assets for lease to Manitoba Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. The 2013/14 year was a period of significant capital investment to support Manitoba Lotteries initiatives and continued renewal activities at the two casino properties. To support these activities, MLC Holdings Inc. acquired $80.0 million in capital assets for lease to Manitoba Lotteries.

## Liquidity and Capital Resources

Operating activities during the 2013/14 year provided Manitoba Lotteries with $306.2 million in cash flows compared to $382.4 million in the previous year, a decrease of $76.2 million or 19.9%. The decrease was primarily found in non-cash working capital items which decreased by $66.0 million and a decrease in operating results of $19.4 million.

Manitoba Lotteries continues to be progressive by providing proven, state-of-the-art products, services and facilities to all customers and employees through the ongoing process of replacing or upgrading gaming and security equipment and technology necessary to support the business. Not only does this support Manitoba Lotteries' corporate goals, it enhances service, safety, reliability and gaming integrity.

In order to support these goals, cash expended on property and equipment totaled $81.2 million as compared to the $144.9 million expended in the previous year. In addition to the regular process of upgrading existing equipment and technology to support ongoing operations, the 2013/14 year saw continued investment associated with the casino construction projects and the completion of the upgrade to the province-wide VLT network.

Manitoba Lotteries finances capital expenditures through a combination of working capital and long-term debt. In the 2013/14 year, total proceeds of long-term debt received were $66.2 million as compared to the $78.1 million of proceeds received in the previous year. The majority of long-term debt has fixed interest rates and is repayable in either quarterly or monthly installments.

Cash distributions to the Province of Manitoba in the 2013/14 year resulted in a cash outflow of $274.0 million compared to the previous year's $295.8 million.

## Corporate Governance

Corporate governance guides the long-term goals and strategic plans of Manitoba Lotteries and sets out the practices and guiding principles to assist decision making. The corporate governance model outlines the authority and accountability among the different levels of Manitoba Lotteries, particularly at the Government, Board and Executive Management levels.

The Board sets corporate policy for the corporation and provides strategic direction to the President & CEO and senior executives, who are responsible for business operations.

The function of the Board is assisted by the work of the following committees:

- Audit, Technology and Risk Management
- Finance and Operations
- Human Resources and Compensation
- Legislation
- Planning, Policy and Governance

The following corporate governance policies and terms articulate corporate roles and responsibilities:

- Board of Directors and CEO Expenses
- Board/Executive Management Relationship
- CEO Responsibility
- Conflict of Interest
- Corporate Governance
- Corporate Performance Management
- Corporate Social Responsibility
- Corporate Strategic Planning
- Internal Audit
- Risk Management

# Risk Management

Manitoba Lotteries continues to use and enhance its Enterprise Risk Management Framework to effectively embed risk management practices into key organizational processes.

By establishing a consistent approach for assessing and managing its business risks, Manitoba Lotteries can effectively address the impact of internal and external factors and events on the achievement of its business goals and objectives.

In the normal course of business, Manitoba Lotteries is exposed to a number of risks. These risks and the actions taken to lessen, and in some cases mitigate them are discussed below.

## Strategic Risks

Strategic risks include external environment factors and events that can impact the corporation's ability to meet its strategic goals and objectives, risks impacting the effective allocation of resources, risks that major initiatives are not aligned with the corporation's goals and objectives and are not being carried out effectively, risks of ineffective relationships with key stakeholders, as well as risks to reputation.

Manitoba Lotteries remains committed to researching, recognizing and understanding changes in its external environment through market research and formalized strategic planning processes for key products and functions. Management engages in a rigorous annual business planning process for which it has received recognition for excellence in government budgeting. Management has established a formal project methodology and is committed to developing and maintaining effective communication processes with its key stakeholders. Manitoba Lotteries is committed to being a good corporate citizen through its various social responsibility programs and initiatives.

## Technological Developments

The adoption of new technologies within the gaming industry continues, including the acceptance of industry-wide standards leading to increased convergence and integration across many systems, product lines and related processes. Manitoba Lotteries continues to work with other jurisdictions to develop common requirements and standards across Canada to streamline development and procurement of systems and devices. Manitoba Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

Technological change assists Manitoba Lotteries to improve its customer service and enhance the overall guest experience, and will eventually provide an increased level of personalization across its many product lines. New technologies are providing management with better information, which will allow for more informed decision making. The Enterprise Business Analytics and System Convergence initiatives are being leveraged to provide the tools to enable interoperability between various software applications, allow sharing of data across applications and lines of business for an enterprise view, and to provide Manitoba Lotteries with new levels of efficiency and methods of exploring new opportunities for revenue growth.

As Manitoba Lotteries continues to become more reliant on technology to support its business, various strategies have been developed to manage the risks associated with new technologies. These include the development of formal technology strategies, architectures and roadmaps to help guide the corporation's future direction.

### Operations Risks

Operations risks include risks that the corporation's operations are not efficient, do not meet customer needs, do not protect game integrity, and do not protect the corporation's significant monetary assets.

Manitoba Lotteries has established appropriate functional areas and developed processes to effectively provide, promote and deliver products and services to customers; recruit, develop and retain resources to meet current and future operational needs; manage hazards; and manage information technology operations in order to achieve its goals and objectives. Management regularly reviews and assesses the amount of risk present in operating units, large scale projects, and specific business processes and develops action plans to support continuous improvement.

### Financial Risks

Financial risks include risks that cash flows and financial information are not efficiently and effectively managed which can compromise the corporation's decision making ability.

Manitoba Lotteries' exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counterparty to fulfill its payment obligations, while low, is mitigated through Manitoba Lotteries' credit management and collection practices. The financial impact resulting from property losses or third-party liability claims are allayed through traditional risk management practices, such as maintaining adequate insurance coverage and coordinating loss mitigation strategies across the corporation.

For the tenth consecutive year, Manitoba Lotteries has been recognized for excellence in government budgeting by the Government Finance Officers Association. The honour has been enhanced by special recognition in the following areas: outstanding as an operations guide, outstanding as a communications device, special capital recognition, and special performance measures recognition. Manitoba Lotteries is committed to meeting the highest principles of government budgeting.

### Governance & Compliance Risks

Governance & compliance risks include the risks of acts of fraud or corruption, the failure to comply with regulatory or contractual requirements, and that business objectives are being pursued in an unmanaged environment that does not encourage integrity, ethical values and competence.

Manitoba Lotteries is committed to having an effective control environment through the establishment and maintenance of its corporate governance model, policies and procedures, and regulatory compliance programs. Management regularly reviews the appropriateness and effectiveness of control activities embedded within processes and takes corrective action to strengthen its system of internal controls.

## Internal Controls over Financial Reporting

Manitoba Lotteries' management has proactively and voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109.

Internal controls over financial reporting have been designed by management, with the participation of the President & CEO (CEO) and the Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of Manitoba Lotteries' financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2014, Manitoba Lotteries' internal controls over financial reporting are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

As well, the CEO and CFO, together with management, after evaluating the effectiveness of Manitoba Lotteries' disclosure controls and procedures, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the corporation would have been made known to them as at March 31, 2014.

There was neither a material weakness nor a change in the corporation's disclosure controls and procedures or its internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, these controls.

## Whistleblower Report

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act* on September 26, 2007, Manitoba Lotteries implemented the Whistleblower Protection Policy and put into place a process through which employees can report serious and significant wrongdoings observed in the workplace without fear of reprisal.

Since the implementation of the Whistleblower Protection Policy and the related disclosure process in September 2007, no disclosures have been received from Manitoba Lotteries employees, no investigations were started and no general inquiries were received.

## Outlook

On April 1, 2014, Manitoba Lotteries officially merged with the MLCC with the passing of *The Manitoba Liquor and Lotteries Corporation Act.* The 2014/15 fiscal year will involve continued transition activities as the newly created Manitoba Liquor and Lotteries Corporation progresses forward with the goals of increasing efficiencies, modernizing procedures and achieving cost savings while maintaining high levels of customer service. Merger activities encompass all departments, each of which works towards the common goal of ensuring the new entity continues to manage current operations through revenue generation and cost containment.

Manitoba Lotteries' support for the community is outlined within a governing Corporate Social Responsibility (CSR) Policy. Financial business planning processes are used so all matters of CSR including community support, responsible gaming, sustainable development, business relationships and employee initiatives are considered and supported across Manitoba Lotteries' operations. This approach augments the value of the business decisions Manitoba Lotteries makes to be consistent with the best interest of its stakeholders and to strive to demonstrate responsible practices in a respectful, ethical and fully accountable manner.

Manitoba Lotteries has always believed that to ensure the long-term sustainability of revenues and income streams, continued reinvestment in its facilities, non-gaming amenities and in new gaming technology is essential. This is demonstrated by the significant investment in initiatives to support operations that occurred in the 2013/14 year and which will continue in the 2014/15 year.

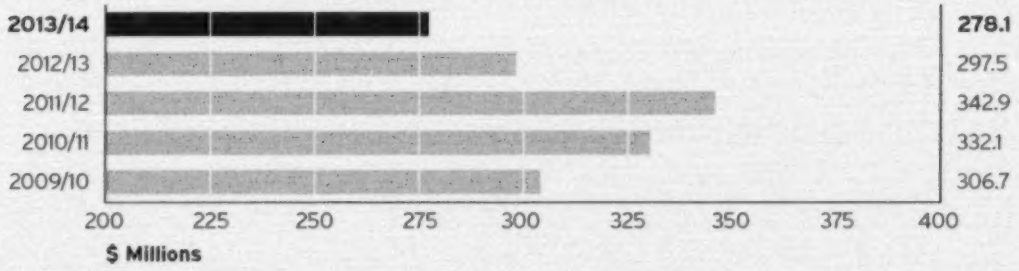
Upon completion of the upgrade to the province-wide VLT network, Manitoba Lotteries' focus has turned to the consideration of Player Services Experience software which will provide the ability to offer services to customers through a player interface. These services may include enhanced responsible gaming services, player account management and other products and services such as lottery ticket sales and progressive games.

Construction activities continue at both casino properties to enhance the customer's total entertainment experience. The Club Regent Event Centre opened in the spring of 2014 and offers flexible seating and hosting capacities and a state-of-the-art sound and visual system. The 2014/15 year will also see the commencement of construction activities at the McPhillips Station Casino which will refresh the overall appearance (both inside and out) as well as provide an above ground walkway to connect the newly constructed parkade to the casino. Manitoba Lotteries will also continue to introduce exciting gaming options to the casino customers through replacement of aging slot machines with a variety of new leased, purchased and networked games and by introducing new table games where appropriate.

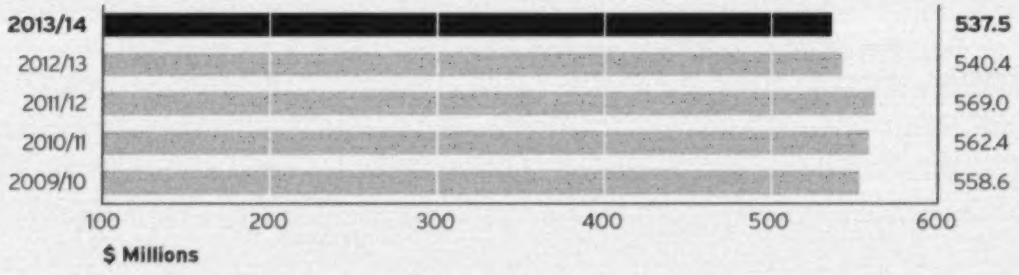
Manitoba Lotteries will continue to enhance the online gaming experience by continuing to partner with BCLC in the development of additional offerings on the PlayNow.com site in the area of bingo products.

# Highlights

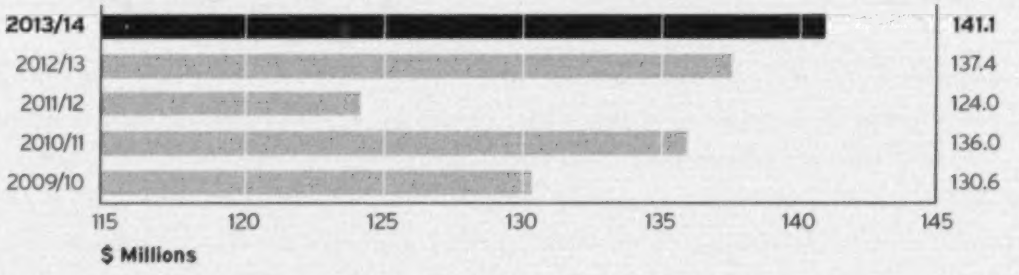
## Allocation to the Province of Manitoba



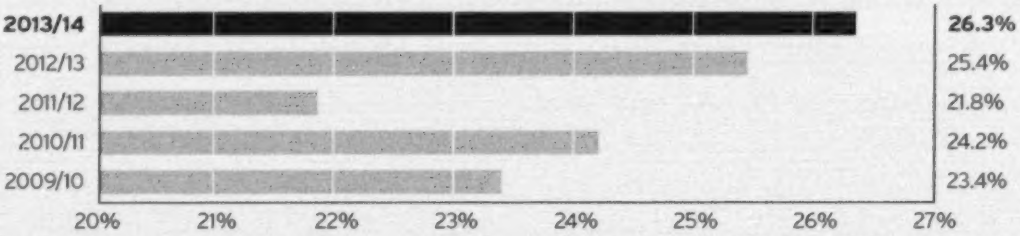

## Revenue



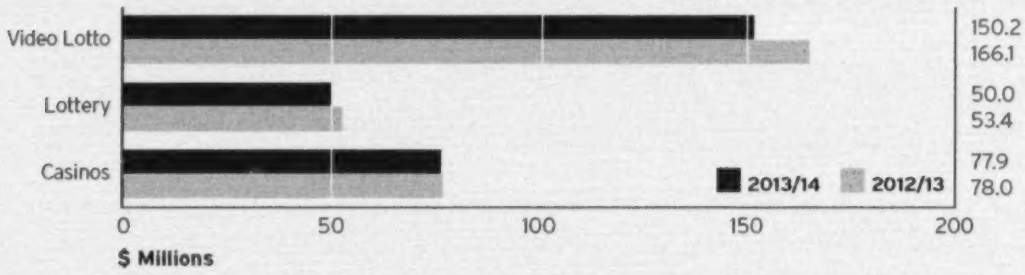

## Operating Expenses



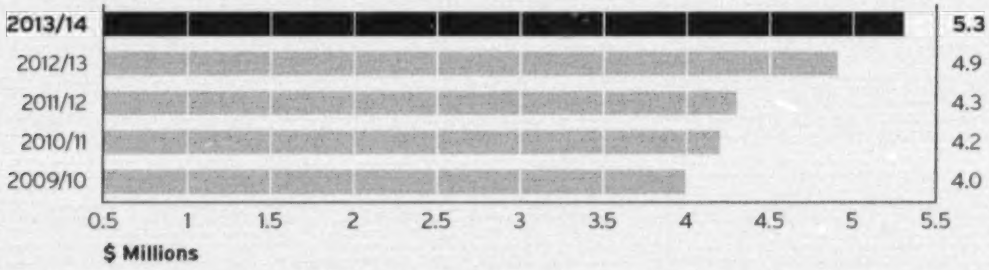

## Operating Expenses as a Percentage of Revenue



## Allocation to the Province of Manitoba by Product Segment

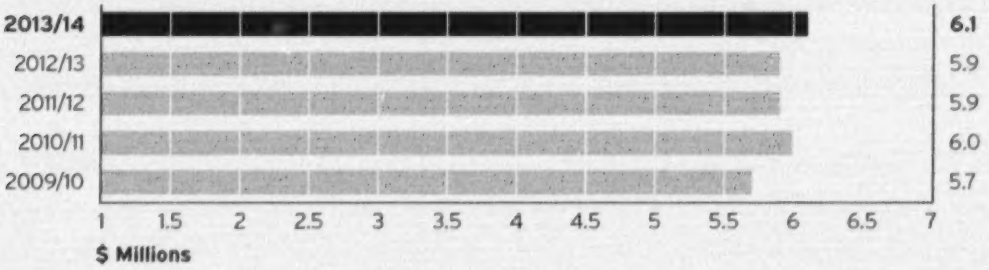



## Responsible Gaming

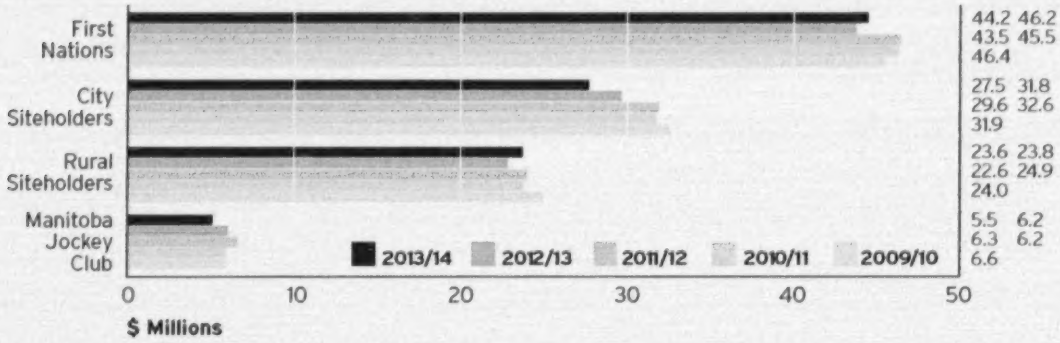



## Community Support

Corporate sponsorship and charitable/community organization funding




## VLT Commissions & Contributions



# Consolidated Financial Statements

MANITOBA LOTTERIES CORPORATION
MARCH 31, 2014

# Management Report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements unless otherwise stated.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporation's internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit, Technology and Risk Management Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2014.

(originally signed by)

**Winston Hodgins**
PRESIDENT & CEO

(originally signed by)

**Tracy Graham**
CHIEF FINANCIAL OFFICER

# Independent Auditors' Report

## To the Board of Directors of Manitoba Lotteries Corporation

We have audited the accompanying consolidated financial statements of Manitoba Lotteries Corporation, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of net income, comprehensive income and equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Lotteries Corporation as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(originally signed by)

**Ernst & Young LLP**

CHARTERED ACCOUNTANTS
WINNIPEG, CANADA,
JUNE 6, 2014.

# Consolidated Statement of Financial Position

AS AT MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| ASSETS | | | |
| **Current Assets** | | | |
| Cash | | $ 29,727 | $ 36,908 |
| Trade and other receivables | 5 | 24,691 | 17,494 |
| Inventories | 6 | 1,358 | 1,471 |
| Prepayments | 7 | 2,734 | 3,104 |
| | | 58,510 | 58,977 |
| **Non-Current Assets** | | | |
| Property and equipment, net | 8 | 326,235 | 291,386 |
| Intangible assets, net | 9 | 11,711 | 8,037 |
| | | 337,946 | 299,423 |
| TOTAL ASSETS | | $ 396,456 | $ 358,400 |
| LIABILITIES AND EQUITY | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 10 | $ 81,367 | $ 89,592 |
| Payable to the Province of Manitoba | | 25,058 | 21,042 |
| Current portion of long-term debt | 11 | 32,117 | 22,575 |
| | | 138,542 | 133,209 |
| **Non-Current Liabilities** | | | |
| Long-term debt | 11 | 251,346 | 218,948 |
| Provision for employee pension benefits | 12 | 1,568 | 1,243 |
| | | 252,914 | 220,191 |
| Commitments and contingencies | 16 | | |
| **Equity** | | | |
| Retained Earnings | | 5,000 | 5,000 |
| | | 5,000 | 5,000 |
| TOTAL LIABILITIES AND EQUITY | | $ 396,456 | $ 358,400 |

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

(originally signed by)
**Tannis Mindell**
DIRECTOR & CHAIR OF THE BOARD OF DIRECTORS

(originally signed by)
**Gerald Rosenby**
DIRECTOR & CHAIR OF THE AUDIT, TECHNOLOGY AND RISK MANAGEMENT COMMITTEE

# Consolidated Statement of Net Income, Comprehensive Income and Equity

FOR THE YEAR ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **Revenue** | | $ 537,499 | $ 540,352 |
| **Direct Expenses** | | | |
| VLT commissions | | 30,527 | 31,667 |
| Gaming direct expenses | 13 | 7,412 | 6,048 |
| Non-gaming cost of sales | 13 | 7,192 | 7,721 |
| | | 492,368 | 494,916 |
| Operating expenses | 13 | 141,097 | 137,438 |
| Depreciation and amortization | | 41,331 | 31,665 |
| Goods and Services Tax | | 4,766 | 3,700 |
| | | 187,194 | 172,803 |
| **Operating Income** | | 305,174 | 322,113 |
| Share of profit of Western Canada Lottery Corporation | 14 | 61,674 | 63,723 |
| Interest expense on long-term debt | | (8,662) | (6,553) |
| Interest income | | 453 | 274 |
| **Income Before Allocations and Payments** | | 358,639 | 379,557 |
| **Allocations and Payments** | | | |
| Gaming Commission fees and Crown levy | | 1,626 | 3,304 |
| First Nations allocation | | 41,736 | 41,066 |
| Manitoba Jockey Club Inc. contribution | | 4,839 | 5,671 |
| Tourism contribution | | 23,686 | 23,632 |
| Responsible gaming funding | | 4,715 | 4,391 |
| Casino bingo volunteer program | | 3,979 | 3,951 |
| | 15 | 80,581 | 82,015 |
| NET INCOME AND COMPREHENSIVE INCOME | | 278,058 | 297,542 |
| EQUITY, BEGINNING OF THE YEAR | | 5,000 | 5,000 |
| Allocation to the Province of Manitoba | | (278,058) | (297,542) |
| EQUITY, END OF THE YEAR | | $ 5,000 | $ 5,000 |

(see accompanying notes to the consolidated financial statements)

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | 2014 | 2013 |
|---|---|---|
| **Operating activities** | | |
| Net income and comprehensive income | $ 278,058 | $ 297,542 |
| Add (deduct) items not involving cash: | | |
| Depreciation related to property and equipment | 38,431 | 30,330 |
| Depreciation on assets related to Conduct and Management agreements | 1,618 | 2,410 |
| Amortization related to intangible assets | 2,900 | 1,335 |
| Gain on disposal of property and equipment | (227) | (240) |
| Provision for (recovery of) employee pension benefits | 325 | (37) |
| | 321,105 | 331,340 |
| Net change in non-cash working capital items: | | |
| Increase in trade and other receivables | (7,197) | (1,565) |
| Decrease (increase) in inventories | 113 | (161) |
| Decrease (increase) in prepayments | 370 | (62) |
| Increase (decrease) in trade and other payables | (8,225) | 52,880 |
| **Cash provided by operating activities** | 306,166 | 382,432 |
| **Investing activities** | | |
| Purchase of property and equipment | (75,072) | (139,925) |
| Purchase of intangible assets | (6,574) | (5,250) |
| Proceeds from disposal of property and equipment | 401 | 248 |
| **Cash used in investing activities** | (81,245) | (144,927) |
| **Financing activities** | | |
| Cash distributions to the Province of Manitoba: | | |
| Current year | (268,000) | (291,500) |
| Prior year | (6,042) | (4,273) |
| Proceeds from long-term debt | 66,162 | 78,122 |
| Repayment of long-term debt | (24,222) | (13,796) |
| **Cash used in financing activities** | (232,102) | (231,447) |
| **Net increase (decrease) in cash during the year** | (7,181) | 6,058 |
| CASH, BEGINNING OF THE YEAR | 36,908 | 30,850 |
| CASH, END OF THE YEAR | $ 29,727 | $ 36,908 |
| **Supplemental cash flow information** | | |
| Interest paid | $ 9,466 | $ 7,870 |

(see accompanying notes to the consolidated financial statements)

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2014
(IN THOUSANDS OF CANADIAN DOLLARS)

## 1. Background

The Manitoba Lotteries Foundation was established by the *Manitoba Lotteries Foundation Act*. On July 27, 1993, the Act was amended and continued under the *Manitoba Lotteries Corporation Act*. By consent of the Legislative Assembly of Manitoba, the corporation continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation. The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

On April 17, 2012, the Province of Manitoba announced that The Liquor Control Commission (MLCC) and Manitoba Lotteries would be merged into a single entity and the regulatory oversight for liquor control, currently managed by the MLCC would be merged with the Manitoba Gaming Control Commission (MGCC). By consent of the Legislative Assembly of Manitoba, *The Manitoba Liquor and Lotteries Corporation Act* was enacted on December 5, 2013 which establishes the Manitoba Liquor and Lotteries Corporation. It was proclaimed that April 1, 2014 would be the date upon which *The Manitoba Liquor and Lotteries Corporation Act* would come into force.

## 2. Significant Accounting Policies

### (a) Basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2014 were authorized for issue by the Board of Directors on June 6, 2014.

These consolidated financial statements were prepared on a going concern basis, using historical cost except for certain financial instruments which are reported at fair value. The consolidated financial statements are presented in Canadian dollars, the functional currency of the Corporation, and all values are rounded to the nearest thousand dollars ($000) except where otherwise indicated.

### (b) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB).

### (c) Basis of consolidation

These consolidated financial statements combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost.

MLC Holdings Inc. has been fully consolidated since the date of inception and will continue to be consolidated until the date when control ceases. The financial statements of MLC Holdings Inc. are prepared for the same reporting period as Manitoba Lotteries using consistent accounting policies. All intercompany transactions and accounts have been eliminated on consolidation.

### (d) Western Canada Lottery Corporation

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on May 13, 1974. The provincial governments of Manitoba, Saskatchewan and Alberta are members in the WCLC, and the Yukon Territory, the Northwest Territories and Nunavut participate with the

provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba).

The Corporation has significant influence, but not control, over the financial and operating policies of the WCLC and therefore accounts for its share of the results of the operations of the WCLC (considered an associate) using the equity method. The financial statements of the WCLC are prepared for the same reporting period and the Corporation's share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 14.

## (e) First Nations Casinos and Shark Club Gaming Centre

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Lotteries to act as its agent in the Conduct and Management (C&M) of the gaming regime.

Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Lotteries maintaining the C&M authority over these casinos. Effective December 1, 2005, the Corporation received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

The Government has provided the TN Arena Limited Partnership the opportunity to establish the Shark Club Gaming Centre, with Manitoba Lotteries maintaining the C&M authority over this gaming centre. As part of this authority, the Corporation recovers all direct gaming related expenses. In addition, the Corporation has entered into an agreement with the owner to perform management services on their behalf with respect to the gaming activity of the gaming centre.

## (f) Foreign currency translation

Functional currency is the currency of the primary economic environment in which the Corporation operates and is normally the currency in which the Corporation generates and expends cash. Each entity determines its own functional currency and items included in the financial statements are measured using that functional currency. The Corporation's functional currency and presentation currency is Canadian dollars (CAD).

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate at the reporting date and all differences are recorded in the consolidated statement of net income, comprehensive income and equity. Non-monetary assets and liabilities and revenue and expenses that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

## (g) Financial instruments

Upon initial recognition the Corporation designates its financial assets as fair value through profit and loss or loans and receivables and its financial liabilities as other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs.

The Corporation's financial assets include cash and trade and other receivables. The Corporation's financial liabilities include trade and other payables, payable to the Province of Manitoba and long-term debt.

### (i) Fair value through profit and loss

Cash is classified as fair value through profit and loss and is measured at fair value. Any gains or losses arising on the revaluation to fair value are recorded in the consolidated statement of net income, comprehensive income and equity.

**(ii) Loans and receivables**

Trade and other receivables are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

**(iii) Other financial liabilities**

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Any gains or losses are recognized in the consolidated statement of net income, comprehensive income and equity.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Corporation has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any difference in the respective carrying amounts of the financial liability is recognized in the consolidated statement of net income, comprehensive income and equity.

## (h) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the assets. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. If the costs of a certain component of property and equipment are significant in relation to the total cost of the asset, these are accounted for and depreciated separately. All other repairs and maintenance costs are charged to the consolidated statement of net income, comprehensive income and equity as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs associated with the borrowing of funds.

Depreciation is charged to the consolidated statement of net income, comprehensive income and equity based on cost, less estimated residual value, on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Furniture and equipment | 3-8 years |
| Gaming equipment | 5-8 years |
| Assets related to C&M agreements | 5-7 years |
| Parking lots and roads | 15 years |
| Major building components | 10-50 years |
| Building structures | 50 years |

The assets' residual values, useful lives and methods of depreciation are reviewed at each fiscal year-end and are adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

### (i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date based on whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases which transfer to the Corporation substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of net income, comprehensive income and equity.

Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the estimated useful life and the lease term.

Other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated statement of financial position. Operating lease payments are recognized as an expense in the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the term of the lease.

### (j) Intangible assets

Acquired intangible assets of the Corporation consist of finite life computer software. Intangible assets acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged to the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Computer software | 5-10 years |

The assets' useful lives and methods of amortization are reviewed at each fiscal year-end and adjusted prospectively, if appropriate.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

### (k) Cash

For the purpose of the consolidated statement of cash flows, cash consists of cash on hand and bank balances. Cash at banks earn interest at floating rates based on daily bank deposit rates.

### (l) Inventories

Inventories consist of bingo paper, breakopen tickets, and consumables. Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as the purchase cost assigned on a weighted average basis.

## (m) Impairment

**(i) Financial assets**

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after initial recognition that have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

If there is objective evidence that an impairment loss has occurred, the amount of the loss measured at amortized cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current effective interest rate.

**(ii) Non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. For the purposes of impairment testing, non-financial assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash-generating unit (CGU).

The recoverable amount of a non-financial asset or CGU is the greater of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses, if applicable, are recognized in the consolidated statement of net income, comprehensive income and equity.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment loss reversals are recognized in the consolidated statement of net income, comprehensive income and equity in a manner consistent with the originally recognized impairment loss.

## (n) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of net income, comprehensive income and equity net of any reimbursement and, if the effect of the time value of money is material, is discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase to the provision due to the passage of time is recognized as a finance cost.

### (o) Pension plans

In accordance with the provisions of the *Civil Service Superannuation Act* (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the multi-employer Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability. Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation expenses contributions made to the pension plan as if the plan was a defined contribution plan.

For employees whose annual earnings exceed the limit under the Fund, a pension liability is established. This liability is determined actuarially on an annual basis.

Actuarial gains and losses are recognized in the statement of net income, comprehensive income and equity immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates, which are recorded as an operating expense.

### (p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as principal in all of its revenue arrangements.

Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the online accounting system for sale to customers. Video lottery and other gaming revenue is recorded at the time of play, net of prizes paid. Administration fees related to First Nations are recorded at the time services are rendered.

### (q) Promotional allowances

Promotional allowances include the value of food, beverages and other items provided on a complimentary basis to patrons. The value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The Corporation also operates a loyalty points program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. Where a revenue transaction includes points awarded under the program, the revenue allocated to the points is deferred based on the fair value of the awards, which is assigned as $0.01 per point earned, and recognized as revenue when the points are redeemed and the Corporation fulfills its obligation to supply the awards.

### (r) Goods and Services Tax

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense in the consolidated statement of net income, comprehensive income and equity.

An input tax credit is claimed for GST paid on non-gaming expenditures.

### (s) Changes in accounting policies

During the year, the Corporation chose to adopt the following standards:

**(i)** IAS 1 - *Presentation of Financial Statements* was amended in June 2011 to improve the consistency and clarity of the presentation of items of other comprehensive income by requiring items to be grouped on the basis of whether or not they may be subsequently reclassified to profit or loss. IAS 1 was further amended in May 2012 to clarify the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements. The adoption of the amendments to IAS 1 did not have any impact on the Corporation's consolidated financial statements.

**(ii)** IFRS 13 - *Fair Value Measurement* does not change the circumstances under which an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. As a result of the guidance in IFRS 13, the Corporation re-assessed its policies for measuring fair values and the adoption of IFRS 13 did not have any impact on the Corporation's consolidated financial statements.

**(iii)** IAS 19 (revised) - *Employee Benefits* was amended in June 2011 and includes enhanced disclosure requirements for multi-employer plans. The impact of the adoption of this standard is reflected in note 12 of the Corporation's consolidated financial statements.

## 3. Significant Accounting Estimates and Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements. Actual results could differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the consolidated financial statements of the Corporation are discussed below.

### (a) Determination of useful lives for tangible and intangible assets

The Corporation has based the determination of the useful lives for their tangible and intangible assets on a detailed review of all empirical data for the different asset classes. The Corporation annually reviews the validity of the useful lives applied to the different asset classes based on current circumstances and considers the impact of any external or internal changes in the Corporation's environment which may indicate the requirement to reconsider these useful lives.

### (b) Loyalty points program

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos.

The future redemption liability of $3,478 (2013 - $3,498) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.

## 4. Standards Issued But Not Yet Effective

The following standard which is reasonably expected to be applicable to the Corporation has been issued but was not yet effective at the date of issuance of the Corporation's consolidated financial statements.

IFRS 9 - *Financial Instruments* reflects the first phase of the IASB's work on replacing the existing standard for financial instruments, IAS 39 - *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial instruments as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Corporation's financial assets. The Corporation will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture.

## 5. Trade and Other Receivables

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Western Canada Lottery Corporation | $ | 2,561 | $ | 3,170 |
| Trade | | 17,419 | | 12,166 |
| Goods and Services Tax | | 4,443 | | 1,858 |
| Employee computer program | | 268 | | 300 |
| | $ | 24,691 | $ | 17,494 |

The Corporation's exposure to credit risks related to trade and other receivables is disclosed in note 17 (c).

## 6. Inventories

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Bingo paper | $ | 358 | $ | 391 |
| Breakopen tickets | | 465 | | 451 |
| Consumable supplies | | 211 | | 247 |
| Restaurant | | 126 | | 190 |
| Store merchandise | | 198 | | 192 |
| | $ | 1,358 | $ | 1,471 |

## 7. Prepayments

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Maintenance contracts | $ | 1,793 | $ | 2,065 |
| Insurance | | 454 | | 450 |
| Entertainer and sponsorship deposits | | 58 | | 138 |
| Rent | | 100 | | 100 |
| Other | | 329 | | 351 |
| | $ | 2,734 | $ | 3,104 |

# 8. Property and Equipment

| | Land | Buildings and parking lots | Gaming equipment | Furniture and equipment | Assets related to C&M agreements | Work in progress (WIP) | Total |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| April 1, 2012 | $ 24,018 | $ 179,627 | $ 167,316 | $ 101,655 | $ 16,968 | $ 26,908 | $ 516,492 |
| Additions | 1,288 | 87 | 6,116 | 5,992 | 2,167 | 124,275 | 139,925 |
| Transfers from WIP | - | 2,113 | 740 | 3,139 | - | (5,992) | - |
| Disposals | - | (8,785) | (3,030) | (597) | - | - | (12,412) |
| March 31, 2013 | 25,306 | 173,042 | 171,142 | 110,189 | 19,135 | 145,191 | 644,005 |
| Additions | - | 19,805 | 7,588 | 3,567 | 2,430 | 41,682 | 75,072 |
| Transfers from WIP | - | 6,566 | 98,653 | 380 | 3,969 | (109,568) | - |
| Disposals | - | (425) | (76,227) | (2,995) | (928) | - | (80,575) |
| **March 31, 2014** | **$ 25,306** | **$ 198,988** | **$ 201,156** | **$ 111,141** | **$ 24,606** | **$ 77,305** | **$ 638,502** |
| DEPRECIATION | | | | | | | |
| April 1, 2012 | $ - | $ 99,129 | $ 135,240 | $ 83,710 | $ 14,204 | $ - | $ 332,283 |
| Depreciation | - | 1,143 | 21,548 | 7,639 | 2,410 | - | 32,740 |
| Disposals | - | (8,785) | (3,023) | (596) | - | - | (12,404) |
| March 31, 2013 | - | 91,487 | 153,765 | 90,753 | 16,614 | - | 352,619 |
| Depreciation | - | 7,994 | 22,849 | 7,588 | 1,618 | - | 40,049 |
| Disposals | - | (399) | (76,227) | (2,869) | (906) | - | (80,401) |
| **March 31, 2014** | **$ -** | **$ 99,082** | **$ 100,387** | **$ 95,472** | **$ 17,326** | **$ -** | **$ 312,267** |
| NET BOOK VALUE | | | | | | | |
| **March 31, 2014** | **$ 25,306** | **$ 99,906** | **$ 100,769** | **$ 15,669** | **$ 7,280** | **$ 77,305** | **$ 326,235** |
| March 31, 2013 | 25,306 | 81,555 | 17,377 | 19,436 | 2,521 | 145,191 | 291,386 |

Capital assets related to C&M agreements consist primarily of the cost of the gaming equipment and related computer equipment for the First Nations Casinos and Shark Club Gaming Centre.

Property and equipment not yet in use is classified as work in progress and is stated at cost. No depreciation is recorded for these assets.

The amount of borrowing costs capitalized during the 2014 fiscal year was $813 (2013 - $1,310). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.250%, the effective interest rate of the specific borrowing.

The net book value of buildings and parking lots held under finance leases at the end of the 2014 fiscal year is $3,912 (2013 - $4,191) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

## 9. Intangible Assets

| | Computer software - acquired |
|---|---|
| COST | |
| April 1, 2012 | $ 13,606 |
| Additions | 5,250 |
| March 31, 2013 | 18,856 |
| Additions | 6,574 |
| **March 31, 2014** | **$ 25,430** |
| AMORTIZATION | |
| April 1, 2012 | $ 9,484 |
| Amortization | 1,335 |
| March 31, 2013 | 10,819 |
| Amortization | 2,900 |
| **March 31, 2014** | **$ 13,719** |
| NET BOOK VALUE | |
| **March 31, 2014** | **$ 11,711** |
| March 31, 2013 | 8,037 |

## 10. Trade and Other Payables

| | 2014 | 2013 |
|---|---|---|
| Trade | **$ 68,412** | $ 77,062 |
| Vacation | **10,210** | 9,652 |
| Interest | **19** | 10 |
| Jackpot liability | **2,336** | 2,551 |
| Province of Manitoba taxes | **390** | 317 |
| | **$ 81,367** | $ 89,592 |

# 11. Long-term Debt

| | 2014 | 2013 |
|---|---|---|
| Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of $96 plus interest until July 31, 2013. | $ - | $ 383 |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $12 plus interest until February 26, 2015. | 128 | 268 |
| Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal installments of $550 plus interest until August 31, 2015. The interest rate on the debt at March 31, 2014 was 2.166%. | 3,300 | 5,500 |
| Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $8 plus interest until August 31, 2016. | 218 | 308 |
| Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $70 plus interest until March 31, 2017. | 2,520 | 3,360 |
| Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $108 plus interest until March 31, 2017. | 3,900 | 5,200 |
| Province of Manitoba, bearing interest at 2.125%, repayable in monthly principal installments of $35 plus interest until March 31, 2018. | 1,666 | 2,082 |
| Province of Manitoba, bearing interest at 2.450%, repayable in monthly principal installments of $64 plus interest until June 15, 2018. | 3,239 | - |
| Province of Manitoba, bearing interest at 2.450%, repayable in monthly principal installments of $112 plus interest until June 15, 2018. | 5,722 | - |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $6 plus interest until November 30, 2018. | 347 | - |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $10 plus interest until February 15, 2019. | 580 | - |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $32 plus interest until February 15, 2019. | 1,868 | - |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $6 plus interest until March 31, 2019. | 339 | - |
| Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $24 plus interest until March 31, 2019. | 1,419 | - |
| Province of Manitoba, bearing interest at 2.350%, repayable in monthly principal installments of $182 plus interest until February 28, 2020. | 12,932 | 15,118 |
| Province of Manitoba, bearing interest at 2.625%, repayable in monthly principal installments of $685 plus interest until March 31, 2020. | 49,320 | 57,540 |
| Province of Manitoba, bearing interest at 3.125%, repayable in monthly principal installments of $575 plus interest until March 31, 2024. | 69,000 | - |
| Province of Manitoba, bearing interest at 5.050%, repayable in monthly principal installments of $563 plus interest until August 31, 2030. | 110,813 | 117,562 |
| Province of Manitoba, bearing interest at the prevailing Royal Bank Prime Rate less 0.75%, interest only payable quarterly. No fixed repayment schedule and maturity date. The interest rate on the debt at March 31, 2014 was 2.250%. | 16,000 | 34,000 |
| Finance lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of $64 until July 13, 2017. | 152 | 202 |
| | 283,463 | 241,523 |
| Less current portion of long-term debt | 32,117 | 22,575 |
| | $ 251,346 | $ 218,948 |

All long-term debt is unsecured and the fair market value at March 31, 2014 is $290,385.

The Corporation's exposure to liquidity risks related to long-term debt is disclosed in note 17 (b).

## 12. Provision for Employee Pension Benefits

The Corporation has a defined contribution money purchase pension plan and is a member of the multi-employer Civil Service Superannuation Fund. These pension plans cover substantially all employees and both require contributions to be made to separately administered funds.

The pension expense related to the Corporation's contributions to the money purchase plan is $190 (2013 - $175) and is recorded in operating expenses.

The pension expense related to the Corporation's contributions to the multi-employer Civil Service Superannuation Fund is $5,035 (2013 - $4,141). Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation's contribution to the Fund is recorded in operating expenses. Expected contributions for the 2015 fiscal year are $5,044.

The Corporation's share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2014 using the accumulated benefit cost method prorated based on service, a discount rate of 4.50% (2013 - 4.20%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

A pension liability of $1,568 (2013 - $1,243) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A loss of $325 was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2014 and is included in the above pension expense.

## 13. Expenses By Nature

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming equipment, table games equipment and online gaming site. Non-gaming cost of sales consist primarily of costs associated with the Corporation's entertainment, food & beverage and retail store operations.

The Corporation's operating expenses by their nature are as follows:

| | 2014 | 2013 |
|---|---|---|
| Employee benefits | $ 99,730 | $ 96,274 |
| Community support | 2,126 | 1,965 |
| Consultant and professional fees | 2,627 | 3,354 |
| Maintenance | 12,644 | 13,569 |
| Marketing | 7,805 | 6,984 |
| Property taxes | 3,267 | 3,057 |
| Sundry | 2,583 | 2,470 |
| Supplies and equipment | 3,351 | 3,454 |
| Telecommunications | 2,866 | 2,286 |
| Transportation and vehicles | 1,674 | 1,756 |
| Utilities | 2,424 | 2,269 |
| | $ 141,097 | $ 137,438 |

## 14. Share of Profit of WCLC

| | 2014 | 2013 |
|---|---|---|
| Revenue | $ 227,344 | $ 225,576 |
| Prizes, commissions and other cost of sales | 159,621 | 155,799 |
| WCLC partner equalization | 3,808 | 3,808 |
| Payment to Government of Canada | 2,241 | 2,246 |
| Profit | $ 61,674 | $ 63,723 |

The WCLC earned revenue in the 2014 fiscal year in the amount of $1,313,834 (2013 - $1,266,762), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2013 - 18%). The WCLC's total profit for the 2014 fiscal year was $433,798 (2013 - $424,541) of which the Corporation's share is 14% (2013 - 15%).

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where the Corporation provides economic benefit equalization specific to salary costs of head office employees residing in Manitoba.

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000, adjusted for inflation, to the Federal Government.

## 15. Allocations and Payments

| | 2014 | 2013 |
|---|---|---|
| Gaming Commission fees and Crown levy | $ 1,626 | $ 3,304 |
| First Nations allocation | 41,736 | 41,066 |
| Manitoba Jockey Club Inc. contribution | 4,839 | 5,671 |
| Tourism contribution | 23,686 | 23,632 |
| Responsible gaming funding | 4,715 | 4,391 |
| Casino bingo volunteer program | 3,979 | 3,951 |
| | $ 80,581 | $ 82,015 |

The Corporation provides funding to the MGCC through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy.

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the province.

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

Responsible gaming funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba.

# 16. Commitments and Contingencies

## (a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 1 to 8 years with options for renewal after that date. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 5 years with no renewal option included in the contracts. The future minimum rental payments relating to operating leases are as follows:

| | | |
|---|---|---|
| 2015 | $ | 898 |
| 2016 | | 501 |
| 2017 | | 157 |
| 2018 | | 148 |
| 2019 | | 137 |
| Subsequent years | | 277 |
| | $ | 2,118 |

## (b) Legal claims

Incidental to the nature of its business, the Corporation is defending various pending legal actions and claims. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate adjustments have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

In addition to the legal actions and claims indicated above, the Corporation was named as a party to a lawsuit related to Scratch 'n Win lottery tickets in March 2009. No steps have been taken to proceed with the claim since it was filed and the possibility of a payout related to this action cannot be determined at this time; therefore no provision for any liability has been made in the consolidated financial statements.

## (c) Purchase commitments

At the end of the 2014 fiscal year the Corporation had purchase commitments of $18,770 related to casino construction projects.

# 17. Financial Instruments

The Corporation is exposed to interest rate, liquidity and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

Risk management policies have been established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Corporation's management oversees the management of these risks in accordance with the risk management policies and framework approved by the Board of Directors.

## (a) Interest rate risk

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 93% (2013 - 84%) of long-term debt having a fixed interest rate. The impact on the Corporation's income associated with the variable interest rate long-term debt is not considered significant.

## (b) Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and a significant portion of the long-term debt is repayable in either quarterly or monthly installments.

The table below summarizes the maturity profile of the Corporation's financial liabilities as at year-end based on contractual undiscounted payments.

| 2014 | On demand | Less than 1 year | 1 year | 2 years | 3 years | 4 years | 5 years | >5 years |
|---|---|---|---|---|---|---|---|---|
| **Trade and other payables** | **$ 2,336** | **$ 79,031** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Payable to the Province of Manitoba** | **-** | **25,058** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Long-term debt** | **-** | **32,117** | **30,892** | **29,723** | **27,504** | **25,441** | **23,874** | **113,912** |
| | **$ 2,336** | **$ 136,206** | **$ 30,892** | **$ 29,723** | **$ 27,504** | **$ 25,441** | **$ 23,874** | **$ 113,912** |

| 2013 | On demand | Less than 1 year | 1 year | 2 years | 3 years | 4 years | 5 years | >5 years |
|---|---|---|---|---|---|---|---|---|
| Trade and other payables | $ 2,551 | $ 87,041 | $ - | $ - | $ - | $ - | $ - | $ - |
| Payable to the Province of Manitoba | - | 21,042 | - | - | - | - | - | - |
| Long-term debt | - | 22,575 | 22,184 | 20,960 | 19,790 | 17,572 | 17,156 | 121,286 |
| | $ 2,551 | $ 130,658 | $ 22,184 | $ 20,960 | $ 19,790 | $ 17,572 | $ 17,156 | $ 121,286 |

### (c) Credit risk

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of a reasonable allowance for non-collectible amounts which is netted against trade and other receivables. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis. The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 5 and it is management's opinion that the Corporation does not have significant concentration risk.

The aging of trade and other receivables at the end of the 2014 fiscal year is as follows:

| | | |
|---|---|---|
| Neither impaired nor past due | $ | 24,675 |
| Not impaired and past due as follows: | | |
| Within 30 days | | 13 |
| 31 to 60 days | | 1 |
| 61 to 90 days | | 2 |
| Over 90 days | | - |
| Allowance for doubtful accounts | | - |
| | $ | 24,691 |

### (d) Capital management

The Corporation's capital is comprised of long-term debt and equity. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba.

### (e) Fair value

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received. Financial instruments recognized at fair value must be classified in one of the following three fair value hierarchy levels:

Level 1 - measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - measurement based on inputs that are not observable (supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.

The Corporation's financial instruments consist of cash, trade and other receivables, trade and other payables, payable to the Province of Manitoba and long-term debt. Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial instruments recorded at fair values, classified using the fair value hierarchy, are as follows:

| 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Cash** | **$ 29,727** | **$ -** | **$ -** | **$ 29,727** |
| | **$ 29,727** | **$ -** | **$ -** | **$ 29,727** |

| 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 36,908 | $ - | $ - | $ 36,908 |
| | $ 36,908 | $ - | $ - | $ 36,908 |

## 18. Related Party Disclosures

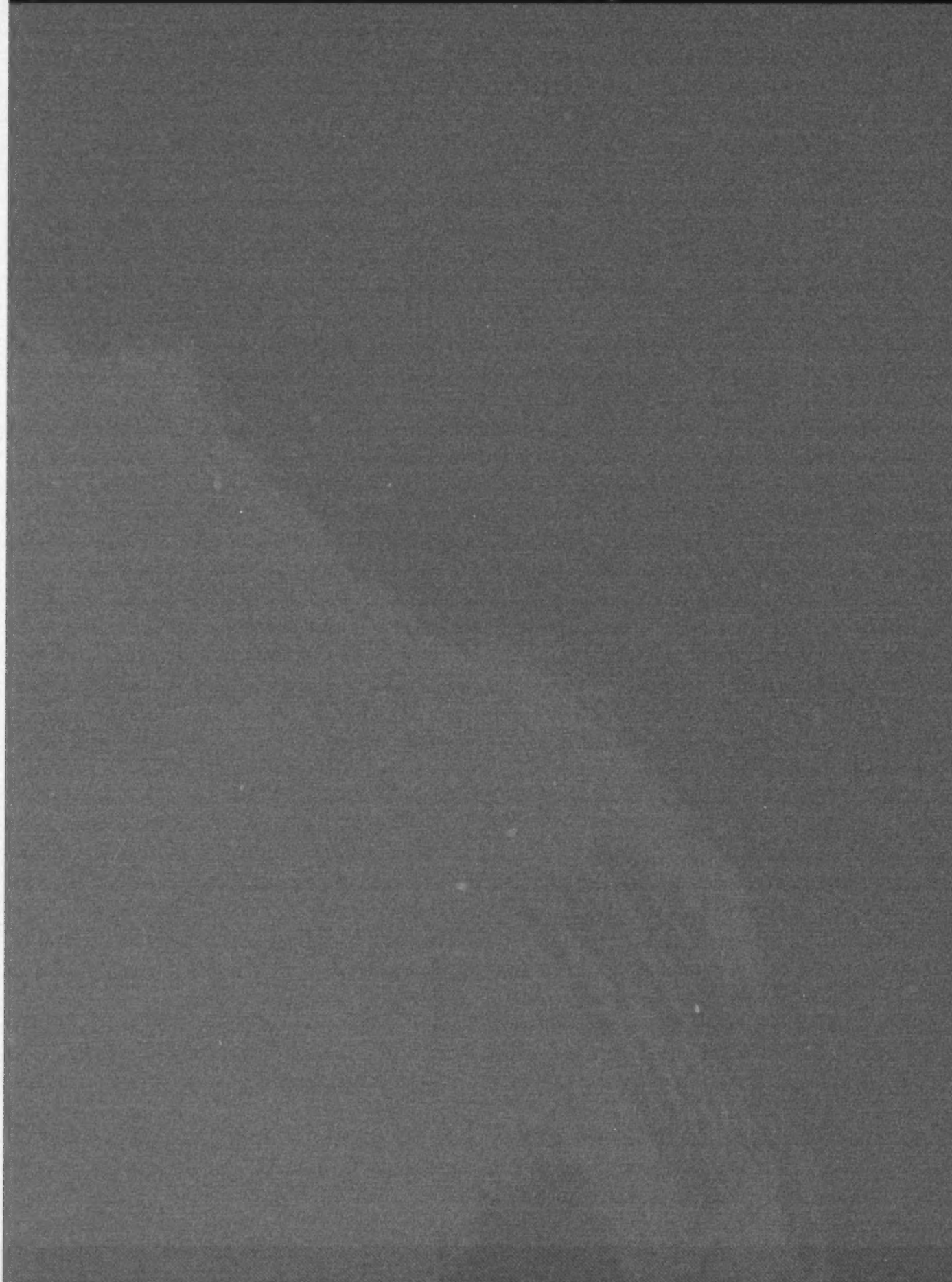
The Corporation is related to various other government agencies, ministries and Crown corporations under the common control of the Government of Manitoba. All transactions with these related parties are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. These transactions include long-term debt with the Province of Manitoba as disclosed in note 11 of these consolidated financial statements.

Compensation of key management personnel of the Corporation, which is recognized as an operating expense during the year, is as follows:

| | 2014 | 2013 |
|---|---|---|
| Short-term employee benefits | **$ 2,038** | $ 1,811 |
| Post-employment pension and medical benefits | **112** | 77 |
| | **$ 2,150** | $ 1,888 |

## 19. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's consolidated financial statements.



Manitoba Lotteries

Le rapport annuel est disponible en français sur le site Web manitobalotteries.com